

ESG INTERNATIONAL – DEMANDS AND REQUIREMENTS OF INVESTORS FROM DIFFERENT COUNTRIES & WHAT IT MEANS FOR IR ESG STRATEGIES

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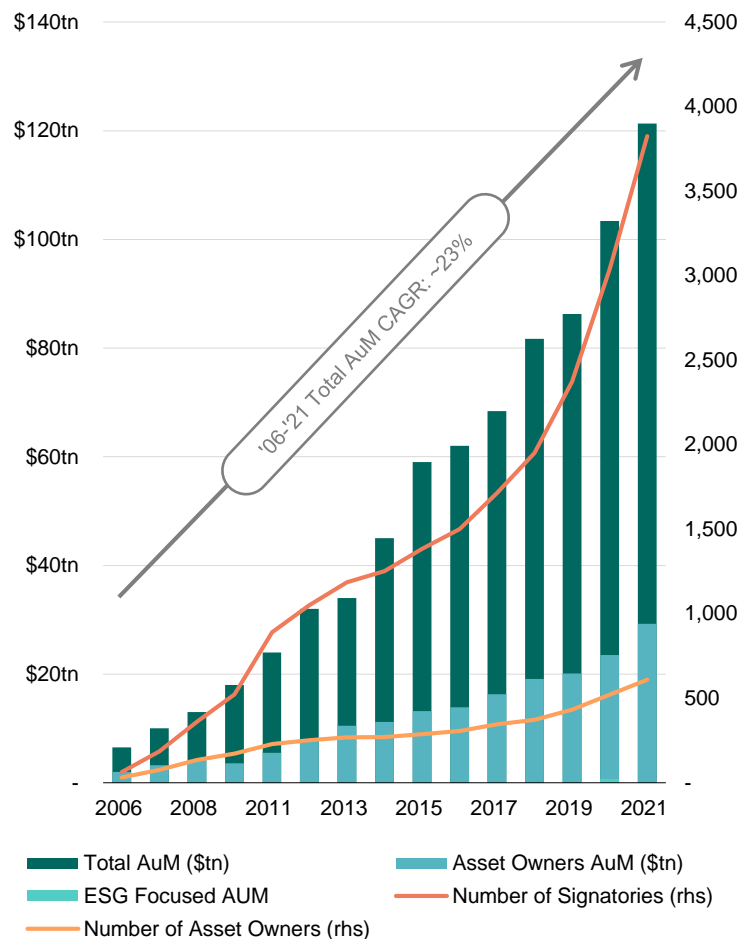
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Explosive growth of ESG investing

ESG market size



Source: PRI (Principles for Responsible Investment) as of 17 June 2022

Different styles of ESG-aligned capital



The ESG ratings most used by investors

Broad ESG ratings:



- ✓ Broad company coverage, with methodology strongly orientated towards the investment case
- ✓ Linked to MSCI's extensive offering of ESG indices
- ✗ Has historically been somewhat of a "black box"



- ✓ Broad coverage, strong transparency and strength of sustainability methodology, with a focus on materiality
- ✓ Push towards alignment with SASB
- ✗ Often missing pieces of analysis / analysis is frequently out of date

Carbon-focused ESG rating:



- ✓ Underlying performance data considered more useful (e.g. specific emissions data used, rather than scores)
- ✓ Good quality of qualitative information
- ✗ Comparability across sectors of carbon and water use is an issue

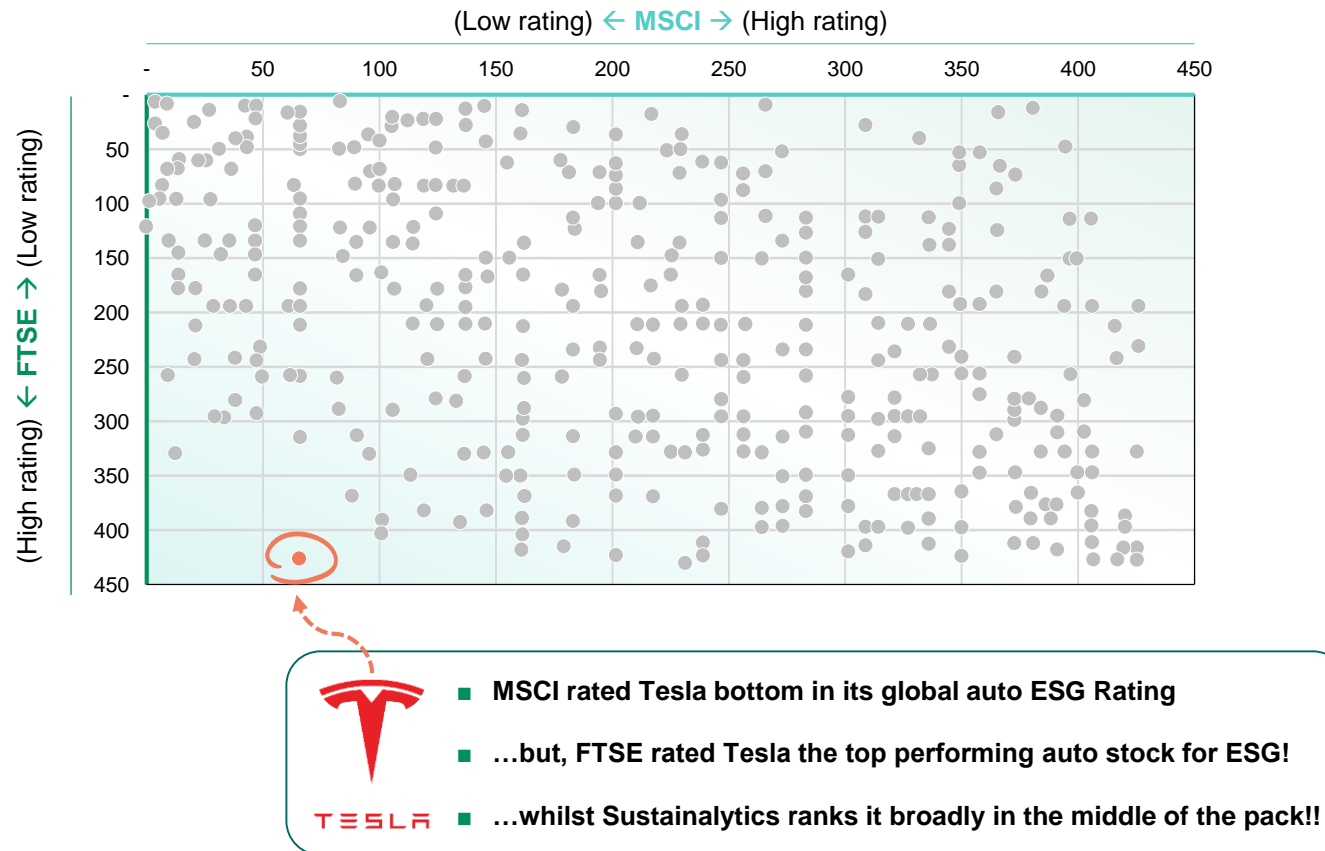
Proxy advisory ESG rating:



- ✓ Superior quality of governance reports, research on proxy reporting, and negative screening on ethical criteria
- ✓ Quality of data (but low usefulness of scores)
- ✗ Considered too strict at times, particularly with breaches to conventions or controversies

However, ESG ratings offer no consensus on best-in-class

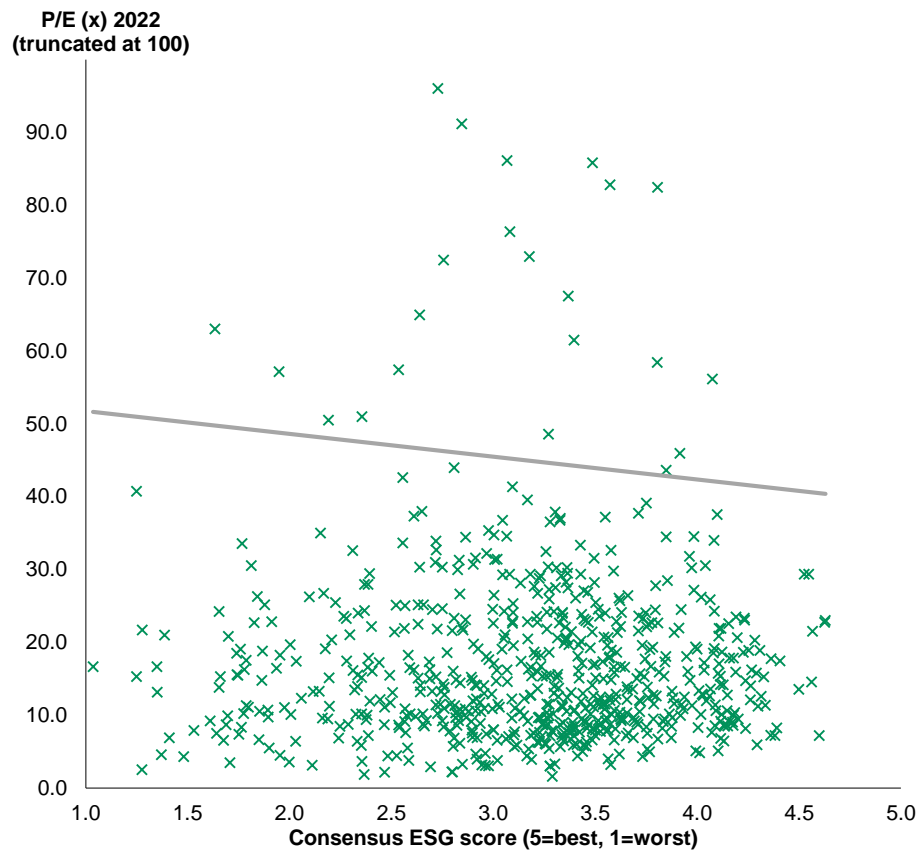
Comparison of ESG Scores from FTSE and MSCI



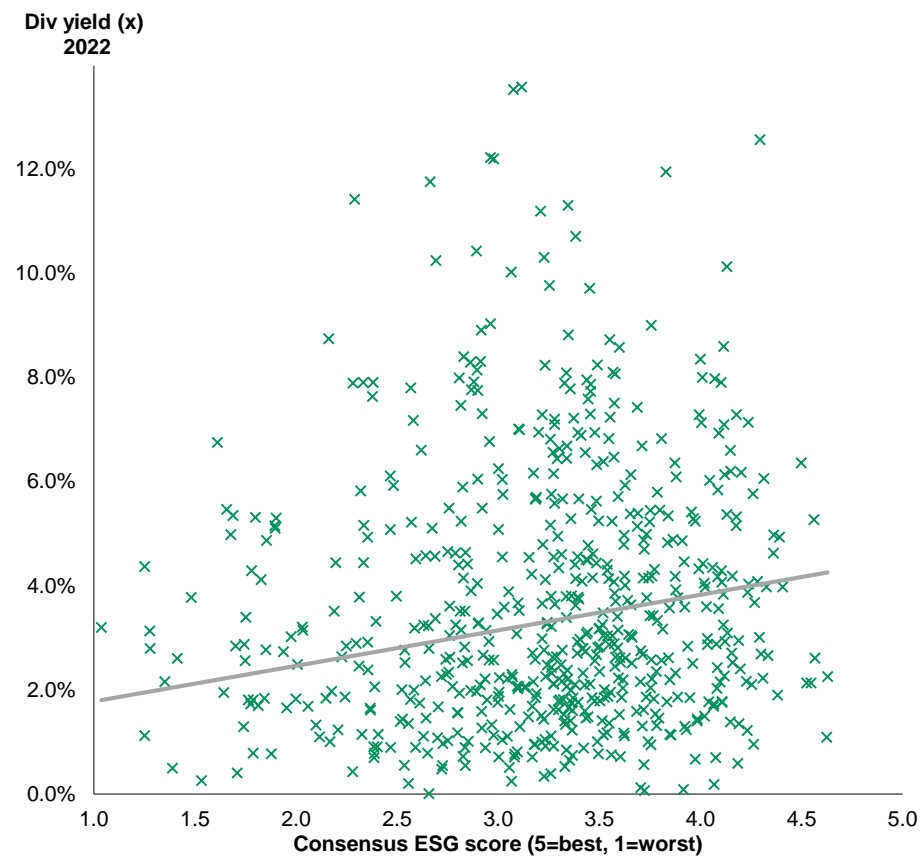
Source: MSCI, FTSE, CLSA/ACGA

There is also no clear relationship between ESG scores and valuation

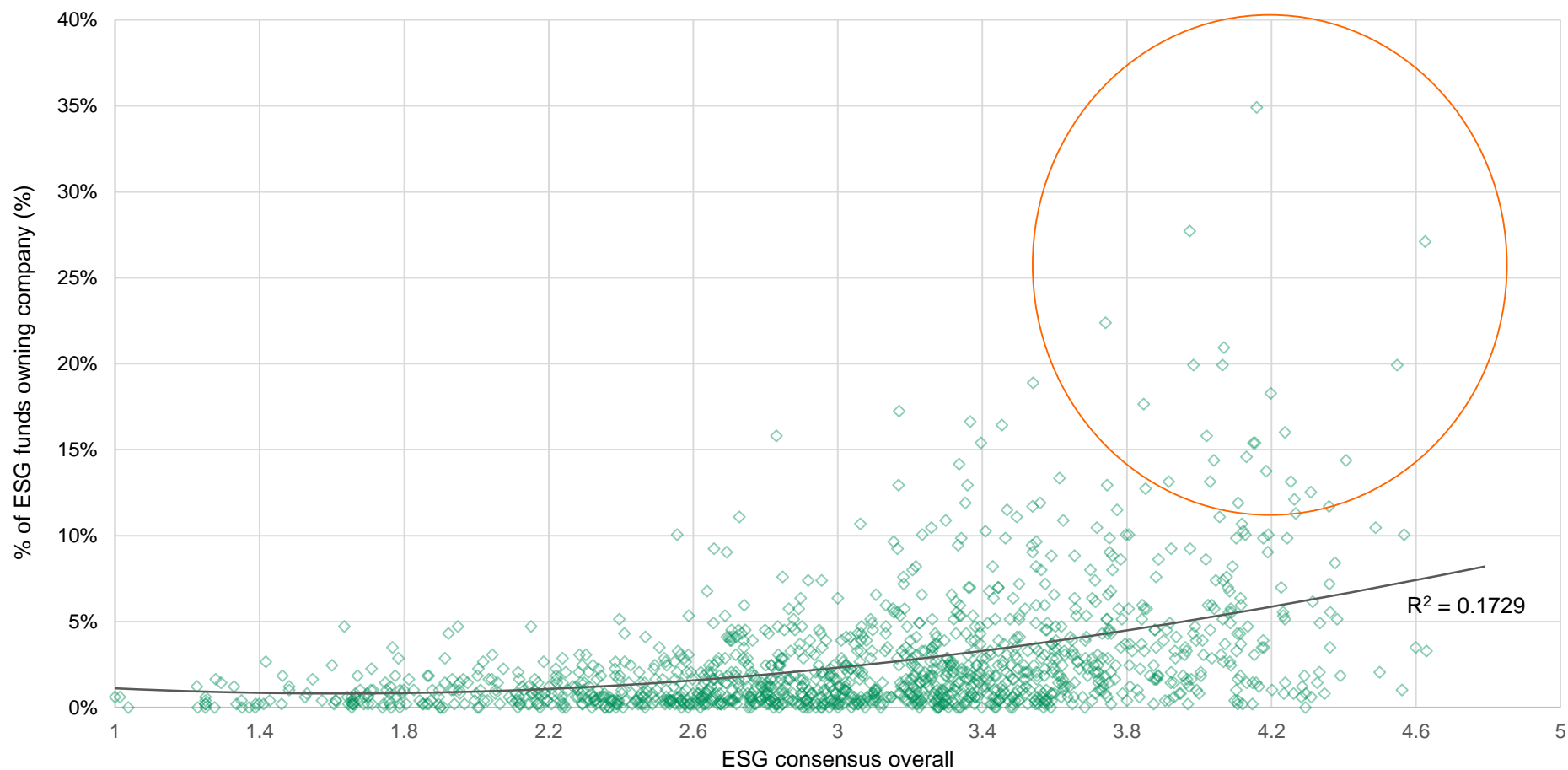
P/E vs consensus ESG rating



Dividend yield vs consensus ESG rating

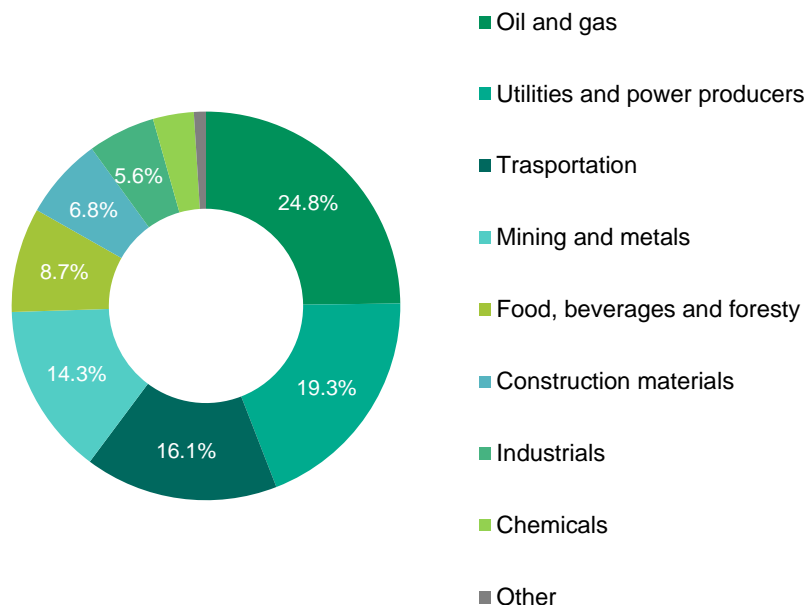


With ESG fund ownership also weakly correlated with ESG scores

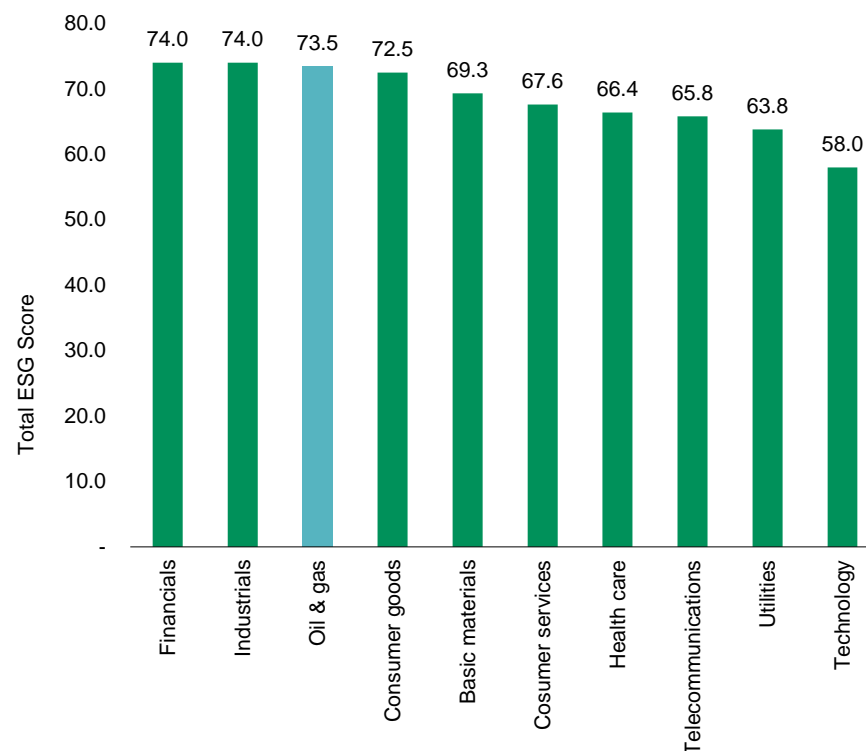


ESG ratings present a disconnect between disclosure and emissions

Oil & Gas is the highest emitting sector...



... and yet large caps O&G companies score high in ESG



Source: Sustainalytics

Corporate ESG mistakes gain significant media attention

Environmental

“Ryanair accused of greenwash over carbon emissions claim”

the guardian

“TotalEnergies accused of downplaying climate risks”

BBC

“Shell suffers drop in investor support for climate strategy”

FT

Social

“Deutsche Bank executives fired after charging strip club visit to company”

NEW YORK POST

“Elon Musk’s stinker to Tesla staff: ‘Return to work or quit’”

The New York Times

“Uber fined \$59 million over sexual assault data”

CNN

Governance

“Wirecard files for insolvency amid German accounting scandal”

the guardian

“Deutsche Bank subsidiary CEO resigns after ‘greenwashing’ raid”

FT

“Credit Suisse boss Horta-Osorio resigns over Covid breaches”

BBC

Key current concerns for ESG investors

- 1 **SFDR** – Which funds should be classified as green under the EU SFDR?
- 2 **Operational ESG PAI** – How do companies and funds look on the key Principal Adverse Impact indicators?
- 3 **Net zero and progress** – Are companies (and therefore funds) aligned with a Net Zero pathway?
- 4 **Social issues** – How should funds engage with sectors such as defence, mining, steel, oil & gas which are important to society but not owned? What about social metrics such as gender diversity and broader issues of social justice?
- 5 **UN SDGs and activities** – How do companies map to the UN Sustainable Development goals and can this framework be used as a guide to sustainable investment given that the EU's Taxonomy is not yet mature?
- 6 **Controversies** – How to avoid ESG controversies

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